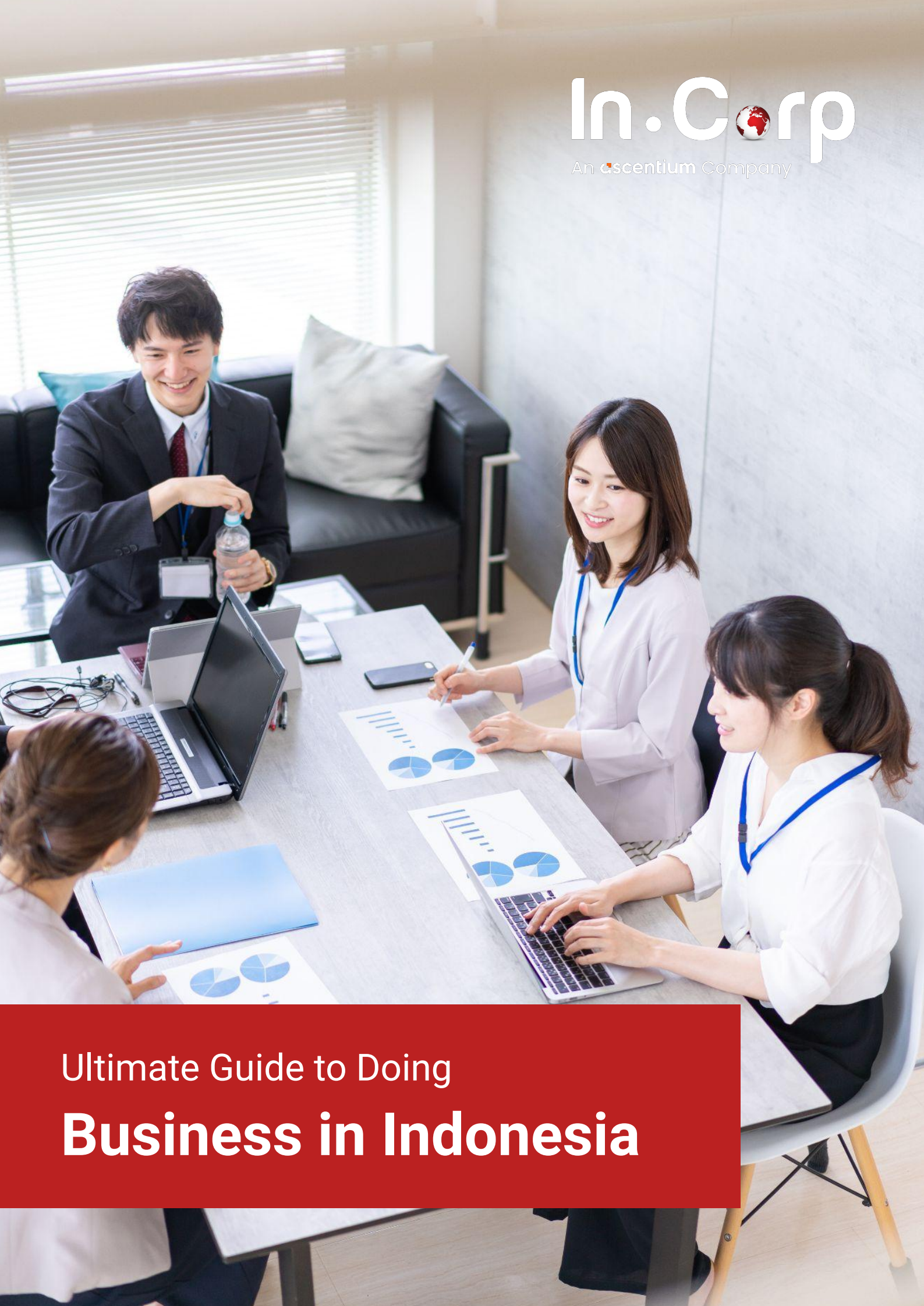

In.Corp
An ascentium Company

Ultimate Guide to Doing

Business in Indonesia

Foreword

Indonesia is a country that is sometimes overlooked by the rest of the world despite its thriving economy. Indonesia's growth has been quick and vast, with experts predicting Indonesia to become the fourth-largest economy in the world despite the contraction caused by the Covid-19 pandemic. There are many enticing aspects of the Indonesian economy and demographics: the population of over 270,000,000 people with the majority in their productive age, large markets with positive consumer behavior, and relatively stable politics.

For most of my adult life, I have felt very passionate about business development in Indonesia. In recent years, foreign direct investment in Indonesia has seen positive growth, and this is not something that has surprised me. Indonesia is full of talented workers with the skills and creativity to compete internationally. This country is full of welcoming people ready to accept foreigners that visit for business or pleasure.

For entrepreneurs - Indonesian or foreign - I recommend starting your business in Indonesia as soon as possible. Indonesia is a great market that will continue to grow in the future, so start your business now. Find a suitable partner in Indonesia to grow and make connections to develop an ecosystem to create sustainable growth. Focus on your core processes, and outsource your supporting functions to someone capable of sustaining your business.

Use this document as a guide to registering your business. Of course, we at InCorp Indonesia are also available to assist in this process if you need us - we are here to help and are only a phone call away. Whether expanding your business or starting one from scratch, I wish you good luck and great success in this beautiful country.

Vidvant Brahmantyo

Vidvant Brahmantyo
CEO InCorp Indonesia

The information compiled in this document is based on the current regulations on 6 June 2022. Further research on regulation updates or new processes is recommended in addition to the information provided in this document. InCorp Indonesia will not be liable for any losses and/or damages in connection with the use of this document. The links to other websites do not imply a recommendation for all the content found on this document. Site owners and content may change without notice and may occur before disabled or removed links are updated.

CERTIFICATE
CERTIFICATE

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How to Start in Indonesia

Need advice with importing goods, starting a short-term project, a limited presence in Indonesia, or other business activities? Use this table below to determine your next steps.

• Are willing to use a local distributor • Content with only using one distributor	**Use A Local Distributor**
• Are willing to use a local distributor • Would like to use more than one distributor	**Find A License Holder**

• Are not willing to invest IDR 10 billion in paid-up capital
• Want to enter the following business fields:
  ○ Retail
  ○ Real Estate
  ○ Road Transportation
  ○ Film Industry
  ○ Forestry
  ○ Ecommerce
	Partner With Or Start A Local PT (100% Local)

• Are willing to invest IDR 10 billion in paid-up capital
• Want to enter the following business fields:
  ○ Construction
  ○ Distribution
  ○ Personnel & Training
  ○ Telecommunications
  ○ Cargo & Shipping
  ○ Tourism
  ○ Restaurants, Bars & Cafes
	Establish A PT PMA With Locals (Partly Foreign)

• Are willing to invest IDR 10 billion in paid-up capital
• Want to enter the following business fields:
  ○ Consulting
  ○ Trading (Import & Export)
  ○ Online portals
	Establish A PT PMA (100% Foreign)

• Are not willing to invest IDR 10 billion in paid-up capital • Starting a construction project • Solely wanting to export products & conduct market research or promotion	**Establish A Representative Office**

10 Reasons To Do Business in Indonesia

10 Reasons To Do Business in Indonesia

Indonesia is the 4th most populous country in the world, with more than 53% of the population living in urban areas.

The Indonesia Investment Coordinating Board launched a One-Stop-Service for investment licenses and non licensing services.

It is the 16th largest economy in the world the largest economy in Southeast Asia.

Indonesia is one of the 17 most diverse countries.

70% of the population is under 39 years of age.

The Indonesian labor force participation rate is predicted to reach 69% by the end of 2022.

As of 2022, the productive age population is over 70 million and will keep increasing in the following years.

Moody's Investor Service put Indonesia's long-term issuer and senior unsecured ratings credit rating at Baa2 from Baa3 (Stable to Positive).

World Bank stated that the consumer spending growth rate in Indonesia reached 2% after hitting -2.67% in 2020.

Indonesia's debt to GDP ratio is still manageable, with 34.2% in Feb 2022 according to Bank Indonesia.

Cultural and Business Etiquette

The strongest values for Indonesians are group, hierarchy and own reputation. These are also reflected in how they act in interacting with others at work and meetings.

Business Meetings

Business is personal in Indonesia, so it is important spend time through communication to build a strong relationship. Dealing with someone face-to-face is the only effective way of doing business.

- A handshake is the most common greeting accompanied with the word "*Selamat*". Most Indonesians apply only very light pressure when shaking hands. Women's hands maybe shaken as well if they initiate. If meeting more people, approach the eldest or most senior first.
- Business cards should be treated with respect – give or accept using two hands or the right hand, and examine the business card before putting it out of hand. For the best impression, the cards should show your title and should also be in the Indonesian language to show respect.
- Business attire is generally conservative. Women should ensure to be well covered from ankle to neck. Tight fitting clothes are best avoided. Remember it is hot, so cotton or at least light clothing is the best.
- Indonesians speak quietly and with a subdued tone. Loud people would come across as slightly aggressive.
- Religious Muslims pray five times a day. If you conduct business with Muslim Indonesians, you should not schedule any meetings or lunch dates during prayer times.

Working With Locals

- Decision making: While Indonesians expect decisions from the seniors and leaders, they are strong advocates of group discussions and consensus.
- Criticizing and refusing: Wanting to save face makes Indonesians very polite. It is difficult for Indonesian to criticize, to be criticized, and to refuse. Bahasa Indonesia actually has 12 ways of saying "no" and also ways of saying "yes" when the actual meaning is "no."

Foreign-Owned Company

Foreigners who want to create or build a business in Indonesia tend to establish a PT PMA.

A PT PMA (*Penanaman Modal Asing*) or Foreign Investment Company, is the establishment of capital for the purpose of doing business in the Republic of Indonesia by a foreign investor. The investment can be made by using foreign capital fully or in part with a domestic investor. Before an investor decides to register a PT PMA in Indonesia, they must investigate his exact business activities in the Positive Investment List, which notes foreign ownership to allow investment in certain business classifications. It is issued by the Indonesian Ministry of Investment, also known as the Indonesian Investment Coordination Board (BKPM).

The minimum investment plan is IDR 10 billion (approximately USD 750,000), which is also the minimum paid-up capital, which shall be deposited after the company is established and bank account is opened. After incorporation, the company is required to submit an Investment Activity Report (LKPM) and monthly tax reports, even if the company does not have any activities and owes no taxes.

The Advantages	The Disadvantages
A PT PMA is recognized as a form of legal entity by Indonesian Law	Stricter compliance compared to a local PT, required to submit quarterly Investment Reports
Eligible to obtain special custom facilities	Must fulll a minimum investment plan of IDR 10 billion (including paid-up capital)
Lower on-site tax or import duties	
Can sponsor many foreign employees	
Eligible to directly obtain business license for certain activities	
For a minimum investment plan of IDR 100 billion, investor is eligible for 3-hour licensing service	

Local
PT Company

One of the available legal entities in Indonesia is a limited liability company. A Limited liability company, also called a “local PT” and officially called a PT PMDN, is the most popular and most widely used business entity in Indonesia for carrying out various business activities.

In addition to having a clear legal basis as provided for in Law No. 40 year 2007 on limited liability companies, a local PT is allowed to conduct business activities that are closed to foreigners. A local PT must be founded by a minimum of two local people as responsible shareholders, one local director and one local commissioner.

The Advantages	The Disadvantages
The viability of the company is more secure	It is subject to a separate tax, and dividends received by shareholders will be taxed
Can easily get additional funds/capital, for example by issuing new shares	The dissolution process, changes to articles of association, mergers and takeovers require time and money, as well as approval by a General Meeting Of Shareholders (RUPS).
The limited liability company binds and protects the company’s activity	The company is 100% owned by local shareholders.
The minimum capital investment is based on company size: • Small: IDR 600 million • Medium: IDR 600 million – 10 billion • Large: more than IDR 10 billion	
The company can have three main business activities	
Usually no limitations apply, and it can use all open government tenders	
It can directly get an import license and employ foreigners	
It can have a foreign director	

Representative Office

A Representative Office is usually the first step for a foreign company in building its business in Indonesia. It is commonly used as a feasibility assessment before establishing a PT PMA. After the market expectations prove to be sensible, the foreign company can establish a PT PMA or foreign capital investment limited liability company.

The activities a Representative Office can undertake are limited. These include:

- Supervising, connecting, coordinating and overseeing company interests in Indonesia.
- Performing market research based on company requirements.
- Monitoring sales for the company's marketing activities.
- A representative office in Indonesia is not allowed to seek income.

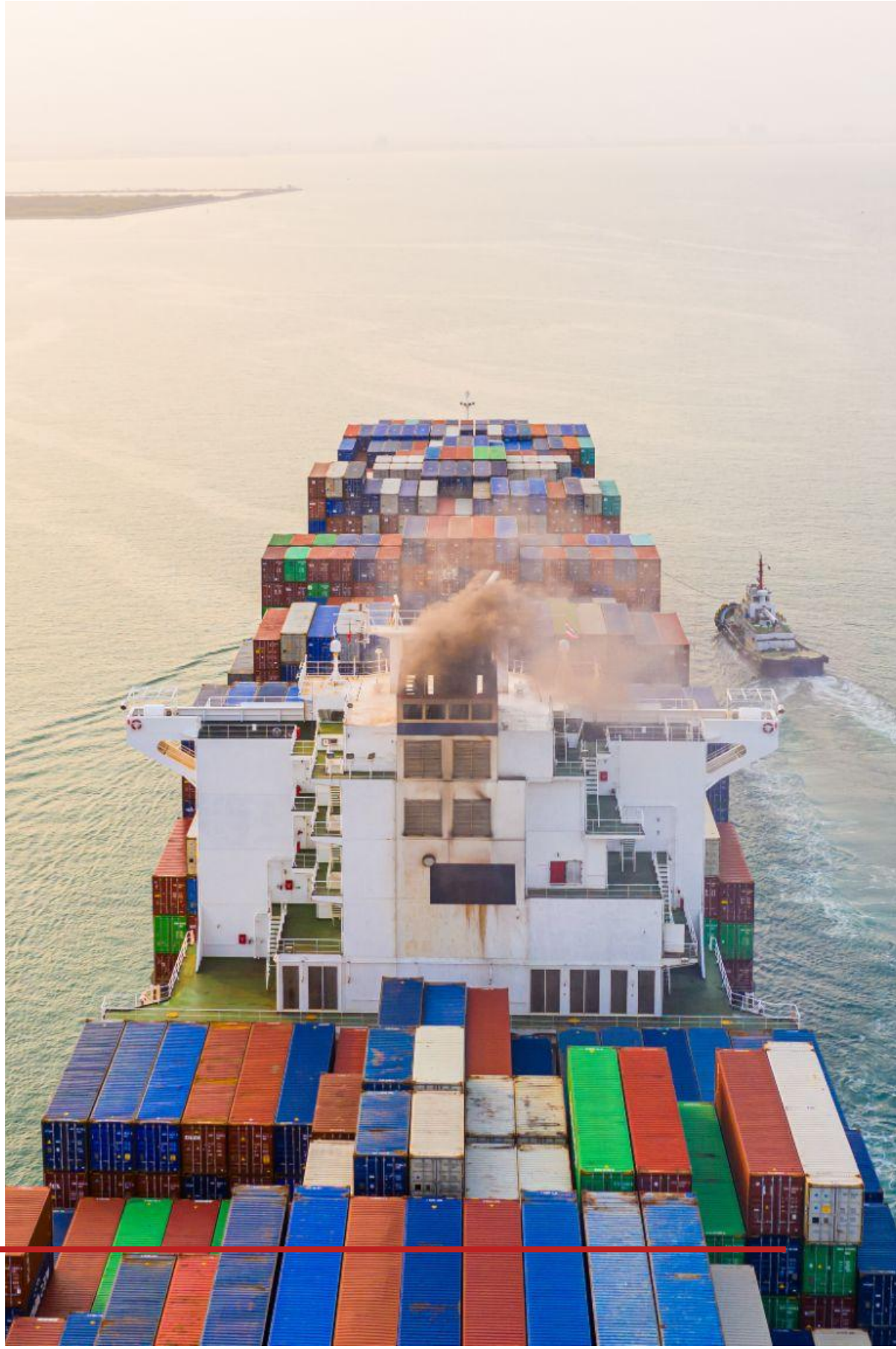
Although the revenue restrictions seem like a major disadvantage, you can still arrange many activities via its parents company and local agents.

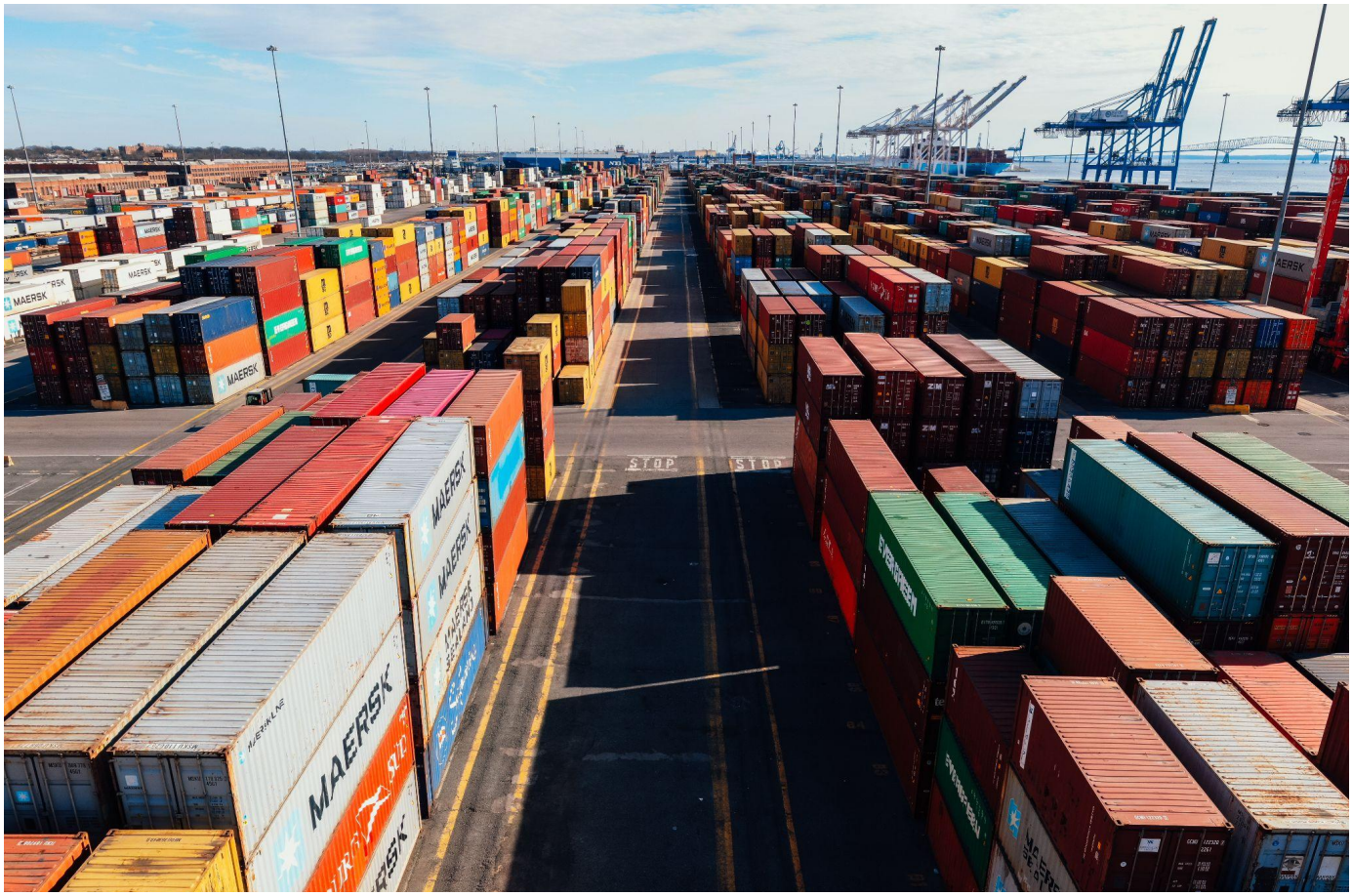
There are four options to consider:

1. Foreign Representative office
2. Foreign Trade Representative office
3. Foreign Construction Representative office
4. Foreign Bank Representative office

While the first two options are used by vast majority of the companies, a Foreign Construction Representative Office can be useful in delivery of construction projects. The Foreign Bank Representative Office is a very rarely selected option.

Import to Indonesia





Import Using Own Your Company

Only either a Local PT or Foreign-owned Company (PT PMA) which holds an import license can import and distribute products in Indonesia, .

Exclusive Distributor

There are products categorized as exclusive products since these products must obtain specific licenses. For instance, products such as food & beverage, cosmetics, and food supplements need to be registered in National Agency of Drug and Food Control (called BPOM in Indonesia) before it can enter Indonesia. The validity of the license or registration depends on the product, ranging between 3 and 5 years. If you do not have a company in Indonesia, you need to appoint one existing distributor or company to register the products under their name. It is important to work with a reliable and trustworthy distributor as this includes inherent risks, so you must consider the distributor's size, specialty, reputability and results. It is advised to hire a local distributor to help you preselect distributors.

Undername Importer & License Holder

For exclusive products, it is very important to use a reputable distributor since it involves many risks. Let's say a distributor would like to lock up the market without sharing products to other distributors or the distributor is underperforming. If such a situation occurs, you must ask the distributor to terminate the product's registration or license, which might lead to a long discussion and high cost. To avoid the risks, you can make an agreement with an agency or company that can serve as license holder and carry out undername importing. The advantage of using this kind of agreement is that you can appoint large numbers of sub-distributors, and the agency is able to terminate the product license anytime upon request of the principal. Also, the undername importer is able to manage the customs clearance process.

Hiring Employees

Personal Income Tax

Personal Income Tax is progressive in Indonesia, but it is still generally low.

Taxable Income	Tax Rate
IDR 0 - 60 Million	5%
IDR 60 - 250 Million	15%
IDR 250 - 500 Million	25%
IDR 500 Million - 5 Billion	30%
IDR 5 Billion and above	35%

All tax residents should register for a National Taxpayer Identity Card (NPWP), otherwise they will be subject to an additional 20% charge on their annual tax report.

Social Security And Health Insurance

Companies are required to pay social security benefits for their workers. In the event of old age, disability, work injuries, sickness, and maternity leave, the Indonesian social security system is known as BPJS. It's an abbreviation of the Social Security Administering Body, which is a special institution tasked with administering health and employment insurance for public, civil servants, and private employees. This program was started in 2014 through the legal basis of Law Number 24 of 2011. The system will generally cover the costs for local workers and employees. This program is being extended to all employees in smaller businesses, informal-sector workers, and people working in rural cooperatives.

The current rate will be as follow :

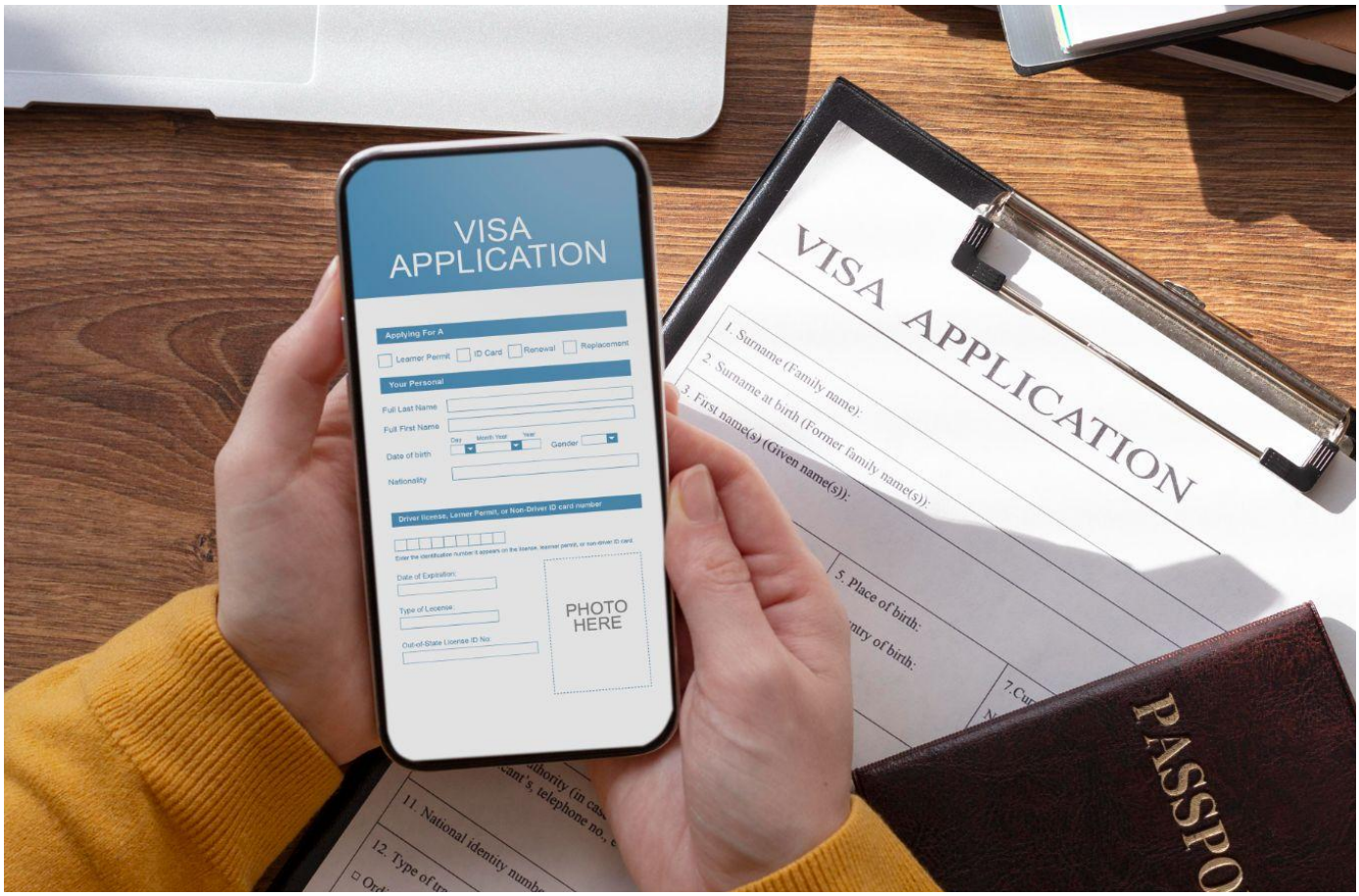
No	Rate For Employee	Rate For Employer
1	BPJS Health Program: 1%	BPJS Health Program: 4%
2	BPJS Social Security • Old Age Security: 2% • Pension: 1 %	BPJS Social Security • Workplace Accident: 0.24% - 1.74% • Death Security: 0.3% • Old Age Security: 3.7% • Pension: 2%

Search Employees

To streamline the recruitment process and to save costs, it is best to work with a recruitment agency or PEO (Professional Employer Organisation). As your recruitment partner, InCorp Indonesia can assist you with:

- Advertising
- Screening
- Pre-interview
- Drafting employment contract
- Employee background check

Employing Foreigners



Working Visa (KITAS)

A KITAS guarantees local resident status, but can be difficult to obtain and are valid for only between 1 to 12 months. The validation period is available for every job position, including director and other position stated in your company documents (AKTA).

Requirements

Bachelor degree or higher, or 5 years of working experience in Indonesia.

Business Visa

Indonesia allows foreigners to apply for business visas before arriving. However, the visa is only valid for participating in business talks, purchasing goods, and negotiating potential business deals within the country. However, business visa holders are prohibited from engaging in activities that generate income in Indonesia. To be eligible, foreigners must apply for a proper work permit.

When it comes to Indonesian business visas, you have two options to choose from.

Single-Entry Business Visa
This visa is valid for 60 days and is not extendable. You must leave Indonesia and apply for a new business visa to return.

Multiple-Entry Business Visa

If you wish to travel in and out of Indonesia multiple times annually for business reasons, opting for a multiple-entry business visa is the appropriate decision. This type of visa permits unlimited visits to Indonesia, each with a duration of 60 days, and it cannot be extended. The visa remains valid for one year.

Quotas

It is not easy to employ foreigners as the government needs to give permission for potential employee. Companies have a limited number of foreigners they can employ which depends on their size, number of local employees and specific projects. Some local agencies can provide HR outsourcing using their quotas which allows you to higher more foreigners.

Income Tax For Foreign Employees

As mentioned on the Hiring Employees page, tax residents that are not registered for National Taxpayer Identity Card (NPWP) are subject to additional 20% charge on their annual tax report. However, expats are able to directly apply for a NPWP once they get their KITAS. Indonesia has double taxation treaties with 65 countries, among them Australia, Canada, China, Germany, India, New Zealand, Singapore, the United Kingdom and the USA.

Employment without a Company

To make the market entry process faster, simpler, and cheaper, a company can choose to employ people without having the local entity using a Private Employment Organization (PEO) or HR Outsourcing.

In the PEO or HR outsourcing service, a third-party company becomes your co-employer, taking responsibility for the employee's contract, payroll, tax calculation and salary payment as well as provide HR-payroll consultancy service based on local regulations.

Activity	Not needed	Outsourced
Incorporation, Licenses, Initial Investment, Office Rental	✔	
Monthly And Annual Tax Reporting	✔	
Quota For Foreign Employees	✔	
Company Closure In Case Of Changing Plans		✔
Salary And Tax Calculations		✔
Payslip And Payments Processing		✔
Visa Sponsorship For Foreign Employees		✔
Legal Support And Guidance		✔

Income Tax For Foreign Employees

An HR Outsourcing service will help you manage the tax applied for foreign employees and register their tax ID. You do not need to worry about reporting annual personal tax returns of foreign employee since it will be handled by yout HR Outsourcing service provider.

Using a HR Outsourcing provider will help you to quickly test the potential of the market or to start small operations in the country and build your brand from the ground up with the support it needs.

Accounting and Tax

Corporate Income Tax

The corporate tax rate is generally at at 25%, but special conditions may apply. If your company is listed and meets certain conditions, you are obliged for 5% reduction. The best benefits are applicable to small businesses with a gross turnover of IDR 50 billion, which makes them entitled for 50% off the standard tax rate. Based on Government Regulation No. 46 of 2013, the company income tax rate will be as follows based on the company revenues except for a few selected industries – for them there is a tax rate no matter on the size.

Gross Income	Tax
Up to IDR 4.8 Billion	1% turnover
IDR 4.8 Billion - IDR 50 Billion	12.5% - 25% of profit
> IDR 50 Billion	25% of profit

Company Field	Income Tax	Turnover Tax
Petroleum	30 - 45%	
General Mining	30 - 45%	
Geothermal	34%	
Construction - Developers		2%
Construction - Design, Consultancy		4%
Foreign Drilling		6%
Foreign Drilling		3%

Timeline for Tax Obligations

In Indonesia, payment for both corporate and individual tax liabilities are typically made to the State Treasury through a designated tax payment bank. Afterwards, you must submit related tax forms to the tax office.

Type of Tax	Monthly Payment Date (of the following month)	Monthly Filing Date (of the following month)	Annual Filing Date
Corporate Income Tax	10th	20th	End of the 4th month after the tax year end
Individual Income Tax	10th	20th	End of the 3rd month after the tax year end
Employee Withholding Tax	10th	20th	N/A
Other Withholding Tax	10th	20th	N/A
VAT & LGST	Before the VAT Return Filing Deadline	End of the following month	N/A

Opening a Bank Account

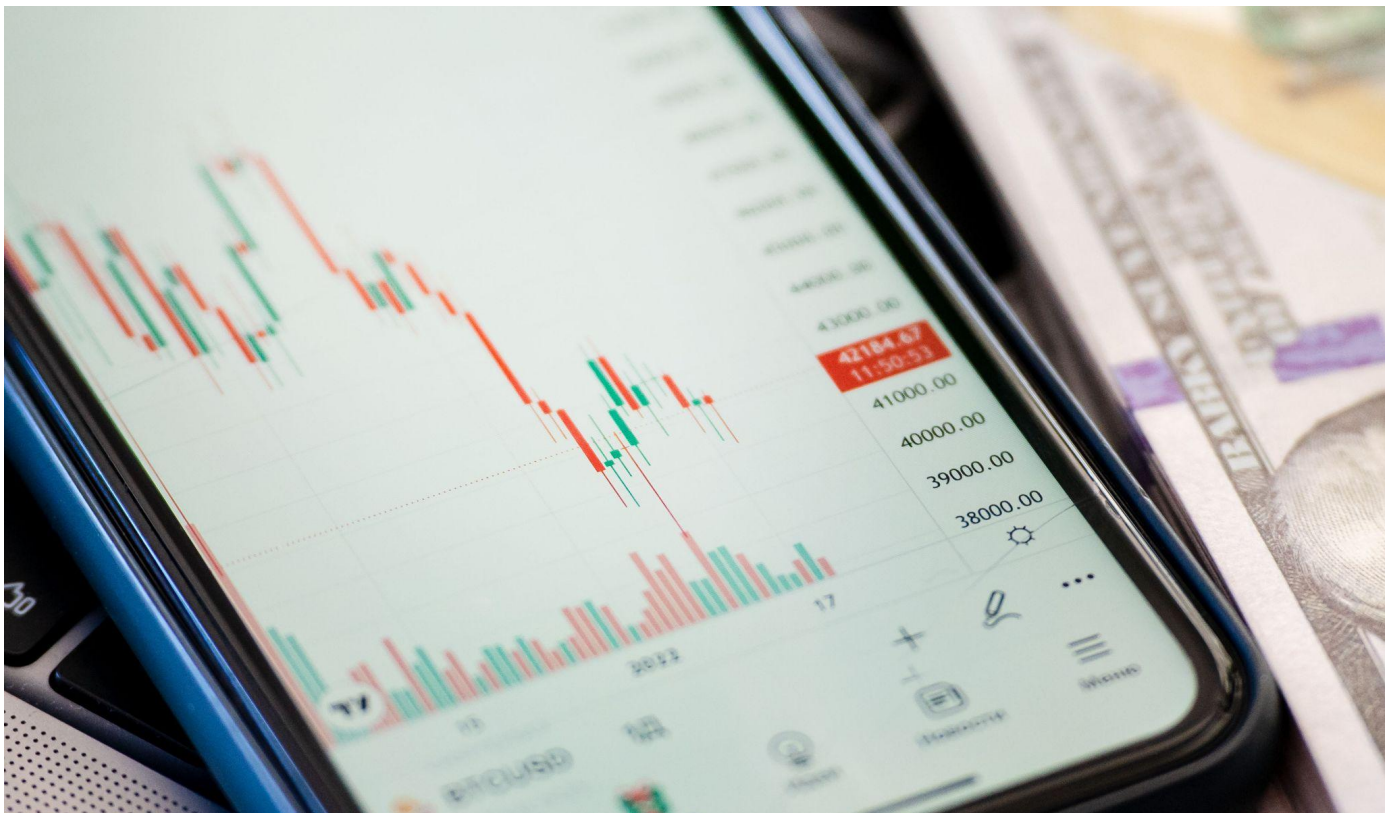
Companies in Indonesia which have a foreign shareholder are required to maintain a bank account. The account must be established with a bank which is licensed to handle foreign currencies (known as Foreign-Exchange Bank or Bank Devisa). Indonesian law requires every bank to maintain information about the account owners.

While in practice, the information required by banks can vary, here are the minimum requirements:

For An Individual	For A Corporate Entity
Copy of identity card or passport	Memorandum and/or Articles of Association
For foreigners, copy of stay permit in Indonesia/temporary resident permit	Business licenses (for Indonesian companies)
	Taxpayer identification number (for Indonesian companies)
	There are no specific restrictions on the use of a bank account by its holder, with the exception of its use for money laundering, terrorism funding

Corporate Bank Account

The most efficient way of obtaining a corporate bank account is to establish a representative office in Indonesia. Keep in mind, however, that a representative office is not allowed to generate any revenue and therefore you should not be receiving other payments to this account than from your parent company.



Import Licenses in Indonesia

If you want to import goods into Indonesia, you are required to obtain an import license. To facilitate and ease business licensing processes, the Online Single Submission (OSS) system has been implemented. With OSS, all business entities will have to register online. After completion of registration with OSS, each business will automatically get a Business Identity Number (NIB or *Nomor Induk Berusaha*) one day after the registration, provided that all required documents are complete.

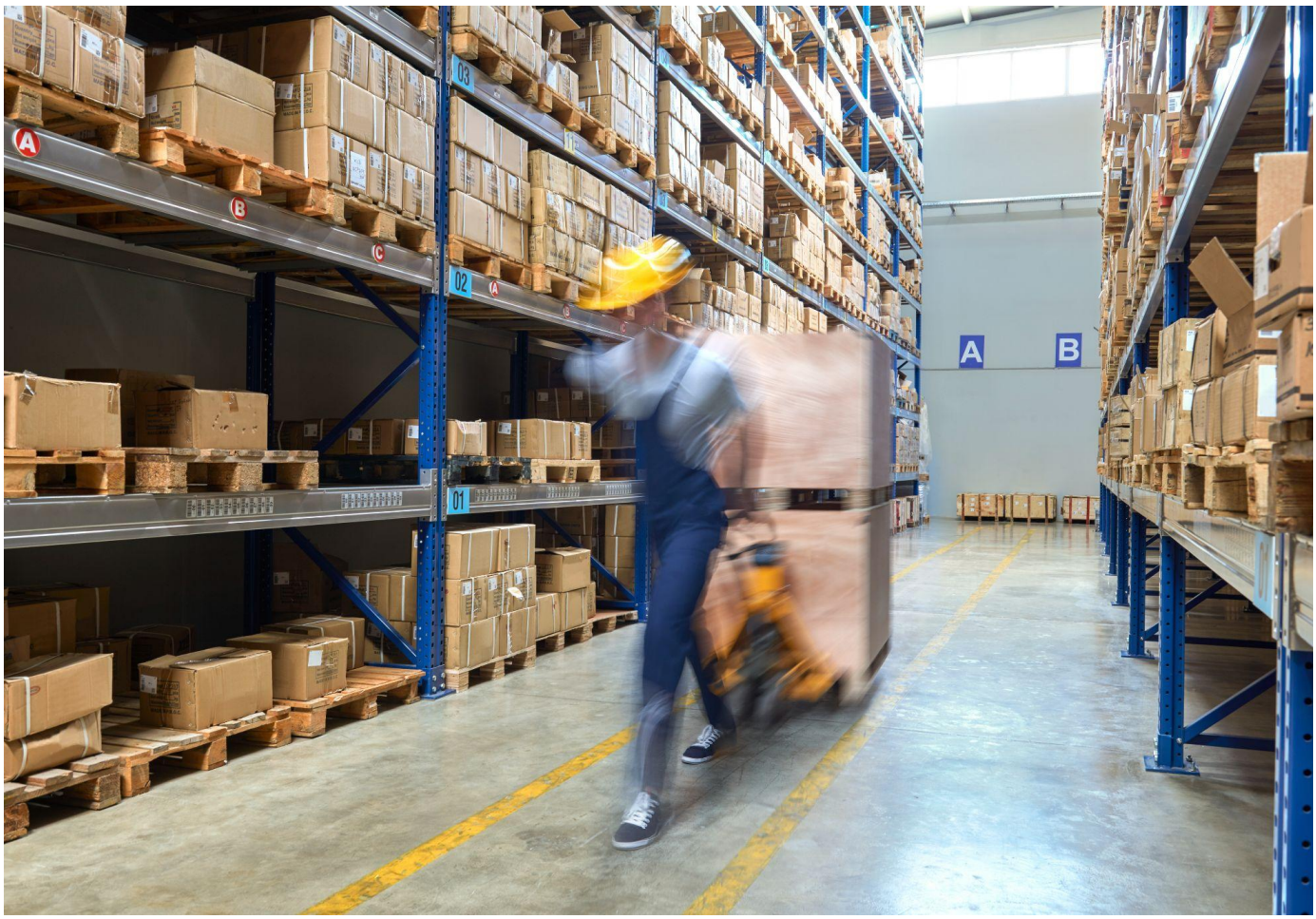
A Business License will also be granted alongside the NIB if your business does not require other licenses, which depends on the business sector your company is engaged in.

Before the implementation of OSS (Online Single Submission), any business who wanted to legally import goods to Indonesia were required to obtain a special license – the General Import License (API-U) or a Producer Import License (API-P), depending on what products you were dealing with. The processing time of these licenses could take up to five months.

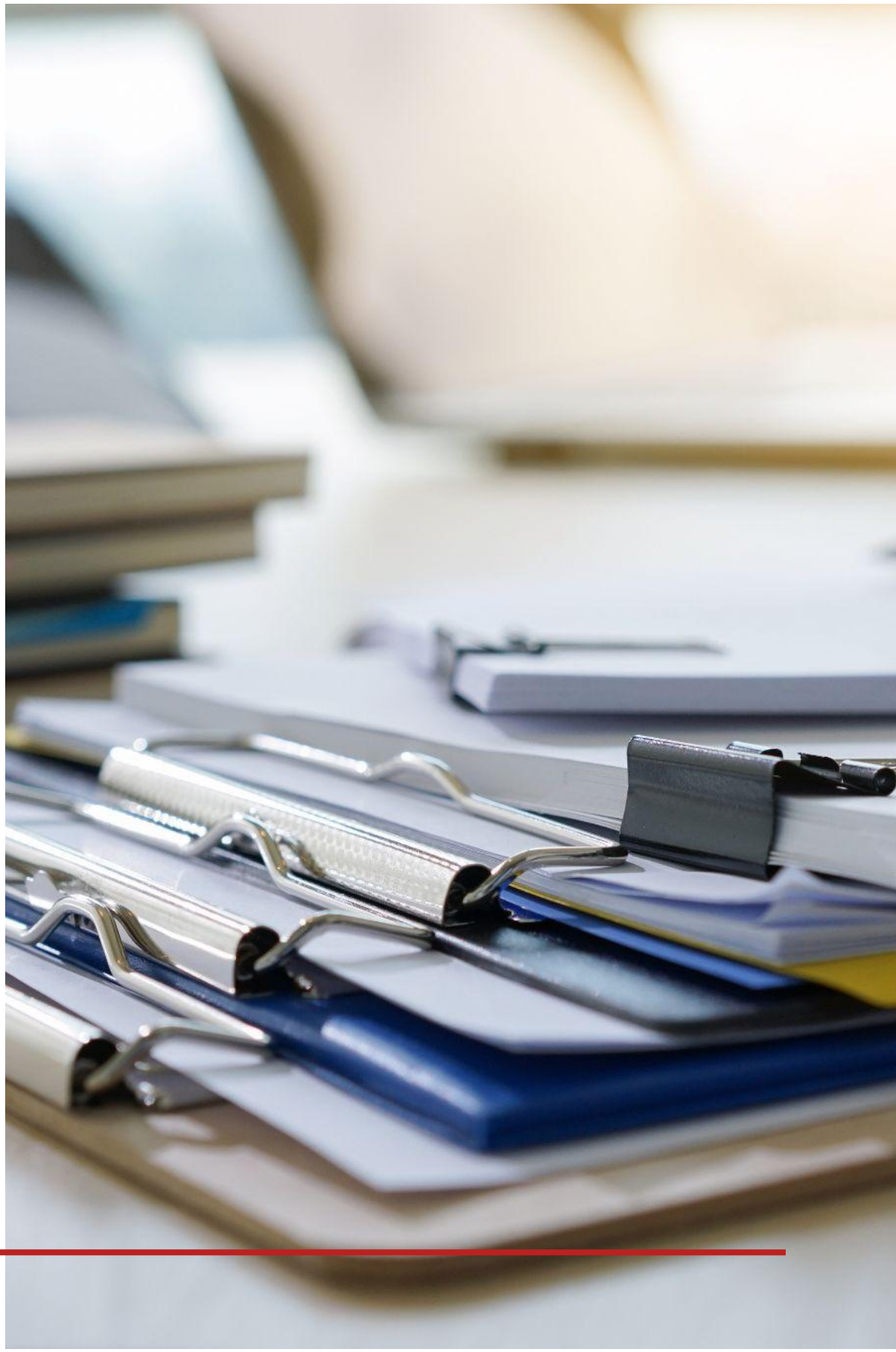
However, the implementation of the OSS licensing system and the cancellation of unnecessary procedures by Ministry of Trade have allowed more convenient and shorter processing time.

Licensing processes covered under the OSS include the import licenses as well – good news for investors and importers is that with the OSS, there is no need for them to obtain an API and a NIK (Customs Registration) as basic import licenses anymore. With this new system, all business entities will need to register themselves through it. After registration is completed with OSS, each business will get an NIB. The NIB will not expire as long as the company is in operation. This NIB number makes all processes much simpler as it replaces the Company Registration Certificate, Importer Identification Number (for import license), and Customs Registration NIK (*Nomor Induk Kepabeanan*).

As such, import companies or companies engaging in import activities do not have to go through the process of acquiring API and NIK anymore. However, importers need to make sure that they still comply with technical import requirements with relevant authorities.



Other Licenses in Indonesia



Business License

A Business License (*Izin Usaha*), previously known as a Permanent Business License (*Izin Usaha Tetap*), is issued by the Indonesian Ministry of Investment or Indonesian Investment Coordinating Board (BKPM), as well as Regional Investment Coordinating Board (BKPMD) to the company that was established in the framework of a foreign investment company (PMA), given as an Operating Permit to conduct commercial business activities in the eld of Trade in Goods or Services.

Classification of Business Licenses:

- A company engaged in general trading, goods or other services should have a business license.
- A company engaged in the manufacturing industry outside of oil, gas and geothermal energy, should have an industrial business license.
- A company engaged in other industries, such as construction, should have construction business license.

Medical Distribution Licenses

Foreign and local companies that intend to sell medical devices in Indonesia are required to obtain two licenses: an Indonesian medical distribution license and a medical devices registration. For an Indonesian medical distribution license, you must set up your own local entity in Indonesia or utilize a distributor with a medical device Distributor's License issued by the Ministry of the Health. We can help you establish your own company, and a suitable local distributor, or provide you with registration through InCorp Indonesia. A distributor's license is valid for an indefinite period of time.

InCorp Indonesia's Overview of Services

INCORPORATION

- Company Registration
- Virtual & Serviced Office
- Closing of Company (Dissolution)
- Corporate Recovery & Insolvency
- Business Licenses
- Mergers & Acquisitions
- Land & Property Ownership

PRODUCT REGISTRATION & IMPORT

- Medical Devices
- Cosmetics
- Food & Beverage
- Health Supplements
- Household Products
- Trademark Registration
- Import & Export Licenses
- Halal Certification
- SNI License
- Importer of Records

BUSINESS SUPPORT SERVICES

- Accounting & Tax Reporting
- Payroll Processing
- Recruitment & HR Establishment
- Audit & Review
- Financial & Operational Resilience
- Employer of Records

SECRETARIAL & COMPLIANCE

- Legal Consultation
- Legal Agreement Services
- Due Diligence & Background Check
- Employment Services
- Business Document Revision

TRANSFER PRICING SERVICES

- Transfer Pricing Compliance
- Transfer Pricing Advisory

IMMIGRATION

- Investor KITAS
- Business Visa
- Work Permit & KITAS
- Spouse Visa
- Dependent Visa
- Permanent Stay Permit (KITAP)
- Social Visa
- Tourist Visa
- Retirement Visa
- Overseas Visa
- Visa on Arrival

BUSINESS ADVISORY

- Internal Audit
- ESG Advisory
- Risk Management

OTHER SERVICES

- Bank Account
- Buying Agent
- Local Partner Selection
- Local Distributor & Partner
- Mystery Shopping
- Driving License
- IMEI Registration

In.Corp
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